

SECTION: GENERAL ADMINISTRATION

SUBJECT: TANGIBLE CAPITAL ASSET
POLICY

Original Resolution No.: 09-10-48

Tangible Capital Asset Policy

Purpose and Scope

The County of Warner No.5, in order to comply with generally accepted accounting principles and more specifically to meet the requirements of Public Sector Handbook Section 3150 (PS3150), have developed this policy for Tangible Capital Assets (TCA).

The purpose of this policy is to provide the basis for the accounting treatment of tangible capital assets. This policy will then help achieve consistent recording and reporting of tangible capital assets and will be inclusive of all departments and organizations that the municipality is responsible for in their stewardship to the Public and to Government. It will also provide a means to improving asset management and future decision making.

The key issues in accounting for tangible capital assets are recording, valuing, and classifying the assets, the determination of useful life and amortization method, the determination of betterment or maintenance, and the recognition of a permanent loss in value of the asset and the need for a write-down.

For the purpose of this policy Tangible Capital Assets are non-financial assets having physical substance that:

- (i) are held for use in the production or supply of goods and services, for the rental to others, for administrative purposes or for the development, construction, maintenance or repair of other tangible capital assets;
- (ii) have useful economic lives extending beyond an accounting period;
- (iii) are to be used on a continuing basis; and
- (iv) are not for sale in the ordinary course of operations.

Management as stated in this policy refers to the Management Committee as outlined in Policy 120.06. The term Auditors refers to the external auditors as contracted by the County.

The County of Warner No.5 will use the recommended guidelines provided by Municipal Affairs (2008) Tangible Capital Asset Project – Implementation Tool Kit.

Tangible Capital Asset compliance will be effective January 2009.

1. Classification of Assets

Major, minor and subclasses of tangible capital assets will be defined as:

- **Major** - A group of tangible capital assets that is significantly different in design and use.
- **Minor** - A classification within a major class that has unique characteristics.
- **Subclass** - A further classification that may be required due to unique tangible capital asset criteria, applications, methodologies and asset lives. There is the option to classify further into subclass one, subclass two, subclass three, etc.

Major asset classifications:

- a. **Land** – includes land purchased or acquired for value for parks and recreation, building sites, infrastructure (highways, dams, bridges, tunnels, etc.) and other program use, but not land held for resale.
- b. **Land Improvements** – all improvements of a permanent nature to land such as parking lots, landscaping, lighting, pathways, and fences.
- c. **Buildings** – permanent, temporary or portable building structures, such as offices, garages, warehouses, and recreation facilities intended to shelter person and/or goods, machinery, equipment and working space.
- d. **Engineered Structures** – permanent structural works such as roads, bridges, canals, dams, water and sewer, and utility distribution and transmission systems, including plants and substations.
- e. **Machinery and Equipment** – equipment that is heavy equipment for constructing infrastructure, smaller equipment in buildings and offices, furnishings, computer hardware and software. This class does not include stationary equipment used in the engineered structures class.
- f. **Vehicles** – rolling stock that is used primarily for transportation purposes.
- g. **Cultural and Historical assets** – works of art and historical treasures that have cultural, aesthetic or historical value that are worth preserving perpetually. These assets are not recognized as tangible capital assets in the financial statements, but the existence of such property should be disclosed. Buildings declared as heritage sites may be included in this asset classification.

Minor asset classifications:

Land

- Right-of-Way
- Parks/Campgrounds
- Building & Shop Sites
- Transfer Station Sites
- Infrastructure

Land Improvements

- Playground Structures
- Sprinkler Systems
- Landscaping

Buildings

- Offices
- Shops, Grader Sheds
- Garages, Storage Facilities
- Recreation Facilities

Engineered Structures

- Roadway Systems
- Water System
- Wastewater System
- Storm System

Machinery and Equipment

- Heavy Construction Equipment
- Light Equipment
- Fire Equipment
- Police Special Equipment
- Computer Systems
- Office Equipment
- Trailers
- Quads/ATV's

Vehicles

- Light Duty Trucks
- Medium Duty Trucks
- Heavy Duty Trucks
- Fire Trucks

2. Capitalization Thresholds

Capitalization threshold is defined as the minimum value of an expenditure that meets the criteria of a tangible capital asset and that will be recorded as a tangible capital asset.

Expenditures that meet these criteria and exceed the following capitalization thresholds (table 2.1) will be recorded as a tangible capital asset:

Table 2.1 Tangible Capital Asset Thresholds

Asset Description	Minimum Threshold
Land	No minimum
Land Improvements	\$ 5,000
Buildings	\$50,000
Engineered Structures	\$50,000
Machinery and Equipment	\$ 5,000
Vehicles	\$ 5,000

The exception to this threshold will be that all vehicles and rolling stock of machinery and equipment will be capitalized.

3. Betterments vs. Maintenance

A betterment is defined as a cost incurred to enhance the service potential of a tangible capital asset. In general, for tangible capital assets other than complex network systems, service potential may be enhanced when there is an increase in the previously assessed physical output or service capacity, where associated operating costs are lowered, the useful life of the property is extended or the quality of the output is improved. Expenditures incurred to maintain the originally anticipated service potential of an asset, or its estimated useful life, are more in the nature of maintenance.

Table 3.1 Betterments

Asset Description	Minimum Threshold
Land	No minimum
Land Improvements	\$ 5,000
Buildings	\$25,000
Engineered Structures	\$25,000
Machinery and Equipment	\$ 5,000
Vehicles	\$ 5,000

4. Cost Measurement and Valuation

- Tangible capital assets are recorded at **historical cost**.
- Initial implementation may require estimates for assets with unknown historical cost. Formulas provided by Municipal Affairs shall be used in determining values where applicable.
- **All land**, excluding land for resale, will be capitalized because of the permanent nature of land. Costs are to include the purchase price plus legal fees, registration costs, transfer taxes, out of pocket expenses and any costs incurred to make the land suitable for use.
- **Purchased assets** – Costs are to include initial consideration paid plus all non-refundable taxes and duties, freight and delivery charges, installation and site preparation costs. Discounts or rebates are to be netted against the costs.
- **Constructed or Developed Assets** – Costs are to include all costs for the acquisition, development and construction of the asset and include construction costs, professional fees and architectural fees.
- **Donated or Contributed Assets** – Value is to be the estimated fair market value at the date of construction or contribution or may be determined by an estimate of the replacement cost.
- **Costs of betterment** are considered to be part of the cost of a tangible capital asset and would be added to the recorded cost of the related asset.
- **Value per item** rather than the value of a group of similar items will be the value used to determine if the tangible capital asset should be capitalized, except where the value of the total group is determined to meet materiality requirements.
- In situations where an asset may have components, the capitalization threshold will be applied to the value of the whole asset and not to each component making up that asset.
- **Management** will have final decision to capitalize an asset if it falls below the capitalization or betterment thresholds and would otherwise be expensed. This may apply to special situations where grouping of assets is required.

5. Amortization Methods and Rates

The amortization rate will be determined by the initial cost of a tangible capital asset less the residual value with the remaining value amortized over the useful life of the asset in a rational and systematic manner. The amortization of tangible capital assets should be accounted for as expenses in the statement of operations. Land normally has an unlimited life and would not be amortized.

A declining method for depreciation will be used for vehicles, machinery and equipment. The straight line method will be used for buildings and engineered structures. The amortization method and the estimate of useful life are subject to ongoing review by the accountant and will be revised when the need for change is clearly demonstrated.

Useful life - the estimate of the shortest of the physical, legal, technological or commercial life over which a tangible capital asset is expected to be used by a government. (Detailed in Appendix A)

Residual value - the estimated net realizable value of a tangible capital asset at the end of its useful life.

Acquisition/Disposition - In the year of purchase amortization will be applied on a monthly basis commencing the month following the date of purchase. (ie. an asset purchase in May will record amortization beginning in June of that year-7/12) In the year of disposal amortization will be applied on a monthly basis including the month in which the asset is sold (ie. An asset sold in May will record amortization ending in May of that year-5/12)

All tangible capital assets will be amortized on a network or single asset basis.

6. Write-downs

When the value of a tangible capital asset declines due to a permanent impairment a write-down to the value is recorded.

A permanent impairment in value occurs when an asset no longer contributes to the provision of goods and services, when the asset is no longer going to be used in its current capacity and there is no other alternative use for the asset, or when the value of the future economic benefits are less than the asset's net book value.

There must be persuasive evidence that the change in condition is permanent in order for a write-down to take place. The ability to objectively estimate the amount of reduction in value must exist. A write-down is not to be reversed.

The Accountant will review asset values annually.

7. Disposals

The difference between the net proceeds on disposal of a tangible capital asset and the net book value of the asset should be accounted for as a revenue or expense in the statement of operations.

Disposals of government tangible capital assets in the accounting period may occur by sale, destruction, loss or abandonment. Department managers are to report to the accountant the effective date and any particulars when a disposal of an asset occurs.

8. Financial System, Asset Recording and Asset Management System

The tangible capital asset database will be integrated with the general ledger in a summary manner with the detail being in the fixed asset application.

The accountant will be responsible to develop, record and maintain all records within the financial system and asset management system. Department managers will review their department's detailed and summary listings on a regular basis and advise the accountant of all errors or omissions.

The amortization method and the estimates of useful life will be subject to ongoing review by Management and will be revised as more accurate methods or estimates are clearly demonstrated.

All write-downs of a tangible capital asset will be the responsibility of the accountant and administrator in consultation with the auditors.

Policy amendments will be revised through the Management committee and through approval by Council.

In the event of a disagreement regarding policy application or interpretation the Administrator and Accountant will make the final decision.

Appendix A

Recommended Maximum Useful Life

Asset Classes

Major

Minor

Sub-class

Maximum Useful Life

Land

Infinite

Land Improvements

Parking lot

Gravel

15

Asphalt

25

Playground structures

15

Landscaping

25

Fences

20

Sprinkler systems

25

Golf courses

45

Tennis courts

20

Fountains

20

Lakes/Ponds

25

Retaining walls

20

Running tracks

15

Outdoor Lighting

20

Airport runways

10

Soccer pitch-outdoor

20

Bike/Jogging paths

Gravel

15

Asphalt

20

Landfill

Pits

Volume

Pads

Volume

Transfer stations

25

Buildings

Permanent structures

Frame

50

Metal

50

Concrete

50

Portable structures

Metal

25

Frame

25

Leasehold improvements

Variable

Engineered Structures

Roadway system

Bridges

Variable

Overpass/interchange

60

Curb & gutter

30

Parkades

50

Roads & streets

Lanes/alleys	
ACP-hot mix	20
Gravel	15
Nonconforming	20
Local/Collector/Arterial/Major Arterial Surface	
Concrete	30
ACP-hot mix	20
ACP-cold mix	10
Chip Seal	10
Oil	5
Gravel	25
Subsurface	40
Road signs	
Traffic control	30
Information	30
Lights	
Decorative	30
Street	30
Traffic	30
Guard rails	30
Ramps	30
Sidewalks & para-ramps	30
Light rail system	65
Water system	
Distribution system	
Mains	75
Services	75
Pump, lift and transfer stations	45
Plants and facilities	
Structures	45
Treatment equipment	
Mechanical	45
Electrical	45
General	45
Pumping equipment	45
Hydrants/fire protection	75
Reservoirs	45
Wastewater system	
Collection system	
Mains	75
Services	75
Pump, lift and transfer stations	45
Plants and facilities	
Structures	45
Treatment equipment	
Mechanical	45
Electrical	45
General	45

Pumping equipment	45
Lagoons	45
Storm system	
Collection systems	
Mains	75
Services	75
Pump, lift and transfer stations	45
Catch basins	75
Outfalls	75
Wetlands	75
Retention ponds	75
Treatment facility	45
Fibre optics	30
Electrical system	
Electrical transmission	
Towers and fixtures	38

Machinery and Equipment

Heavy construction equipment	Variable
Fire equipment	12
Police special equipment	10
Aircraft	Variable
Boats	25
Fuelling stations	15
Laboratory	10
Tools, shop & garage equipment	15
Scales	15
Bins	15
Turf Equipment	10
Office furniture & equipment	
Furniture	20
Office equipment	10
Computer systems	
Hardware	5

Vehicles

Light duty	10
Medium duty	10
Heavy duty	10
Transit buses	20
Fire trucks	25
Light rail transit cars	40